

Message Text

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SUBJECT: JUNE 5 FINANCE COUNCIL MEETING-DISCUSSION OF EC ECONOMIC
POLICY GUIDELINES

REF: (A) EC BRUSSELS 6636 (B) EC BRUSSELS 5180

1. SUMMARY: THE COMMISSION HAS PROPOSED ECONOMIC POLICY GUIDELINES FOR THE MEMBER STATES WHICH THE EC COUNCIL OF MINISTERS WILL LIKELY TAKE UP SHORTLY. THE COMMISSION SUGGESTS,INTER ALIA,ADOPTION OF APPROPRIATE INCOMES POLICIES,RESTRAINING THE GROWTH OF LIQUIDITY,ACCELERATING INVESTMENT AND CURTAILNG BUDGETARY DEFICITS IT NOTES THAT RISING PRICE INFLACTION IS SOME COUNTRIES WILL LIEKLY INCREASE ECONOMIC DIVERGENCIES WITHIN THE EC. THE PROPOSED GUIDELINES,HOWEVER,ARE TOO GENERAL TO HAVE A SIGNIFICANT IMPACT ON MEMBER STATES POLICIES END SUMMARY.

2. THE EC COMMISSION SUBMITTED TO THE EC COUNCIL ON JUNE 23 PROPOSALS FOR 1976 ECONOMIC POLICIES AND FOR THE PREPARATION OF 1977 PUBLIC BUDGETS. THE COMMISSION NOTES THAT ECONOMIC RECOVERY HAS GATHERED MOMENTUM IN THE EC,PARTICULARLY IN THE FRG. FRANCE, DENMARK AND LUXEMBOURG HOWEVER,DESPITE BUDGETARY STIMULUS AND RELATIVELY EASY MONETARY POLICY,BUSINESSN

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CONTINUES TO REMAIN CAUTIOUS ABOUT FIXED INVESTMENTS,

EXCEPT IN THE FRG. THERE HAS BEEN AN ACCELERATION IN PRICE INFLATION RECENTLY IN SEVERAL MEMBER STATES IN ADDITION,THE DISPARITY BETWEEN MEMBER STATE INFLATION RATES IS WIDENING IN SOME MEMBER STATES. THE COMMISSION CONCLUDES THAT THE CONTINUATION OF THE RECOVERY IS STILL NOT ASSURED AND THERE ARE EXCESSIVE DIVERGENCIES IN MEMBER STATE ECONOMIES.

3. GENERAL GUIDELINES: THE COMMISSION PROPOSES THAT THE EC SHOULD AIM AT AN AVERAGE REAL GROWTH RATE OF 4.5 TO 5 PERCENT IN GDP BETWEEN NOW AND 1980. THE EC ALSO SHOULD REDUCE THE AVERAGE RATE OF INCREASE IN CONSUMER PRICES TO NOT MORE THAN 4-5 PERCENT BY 1980.
(THE AVERAGE ANNUAL RATE OF PRICE INFLATION IN MAY WAS 11.2 PERCENT) THE COMMISSION SAYS THAT CAUTIOUS ECONOMIC POLICIES ARE NEEDED,AND MEMBER STATES SHOULD ADOPT INCOMES POLICIES TO MEET THEIR SPECIFIC SITUATIONS.CEILINGS SHOULD ALSO BE IMPOSED ON LIQUIDITY GROWTH AND SPECIAL POLICIES SHOULD BE ADOPTED TO REDUCE UNEMPLOYMENT AND STIMULATE FIXED INVESTMENT.

4. 1977 BUDGETARY GUIDELINES: IN ORDER TO PROMOTE ORDERLY EXCHANGE MARKETS,INTEREST RATES WILL HAVE TO BE KEPT AT A RELATIVELY HIGH LEVEL IN COUNTRIES FACING LARGE BALANCE OF PAYMENTS DEFICITS. BUDGET DEFICITS SHOULD BE REDUCED IN 1977.SUCH REDUCTIONS SHOULD NOT ONLY COME FROM INCREASED TAX REVENUE BUT ALSO FROM CUTBACKS IN EXPENDITURES SPECIFIC,LIMITED TAX RELIEF SHOULD BE OFFERED,HOWEVER,TO HELP RESTRAIN RISES IN COSTS AND PRICES AND TO PROMOTE PRIVATE INVESTMENT.

5. COMMISSION OFFICIALS CONCEDE THAT THE PROPOSED GUIDELINES ARE SO GENERAL THAT THEY ARE NOT ESPECIALLY MEANINGFUL. THE COMMISSON,

HOWEVER,PLANS TO SUBMIT SPECIFIC ECONOMIC POLICY GUIDELINES FOR 1977 TO THE SEPTEMBER FINANCE COUNCIL. AT THIS TIME IT WILL ALSO ASSESS THE ECONMIC OUTLOOK FOR 1977. THE COMMISSION WOULD LIKE TO ESTABLISH QUANTITATIVE MONETARY TARGETS, BUT THE MEMBER STATES HAVE SO FAR RESISTED SUCH PROPOSALS. COMMISSION OFFICIALS PLAN TO PROPOSE SUCH TARGETS NEXT YEAR, HOWEVER.

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6. THE JULY 5 FINANCE COUNCIL WAS SCHEDULED TO TAKE UP THE PROPOSED GUIDELINES. HOWEVER,THIS MEETING WAS CANCELLED (SEE REFTEL A) PRESENTLY WE DO NOT KNOW WHETHER ANOTHER FINANCE COUNCIL MEETING WIL BE SCHEDULED IN JULY TO CONSIDER THESE GUIDELINES.

7 COMMENT: THIS IS THE SECOND YEAR THAT THE COMMISSION HAS PROPOSED EC POLICY GUIDELINES.ITS

FIRST EFFORT MET WITH LITTLE SUCCESS; INDEED, MEMBER
STATE ECONOMIC DIVERGENCIES HAVE TENDED TO INCREASE.
THE COMMISSION WOULD PREFER TO SUGGEST MORE RIGOROUS AND DETAILED
GUIDELINES THAN THOSE PROPOSED,
BUT IT RECOGNIZES THAT THE MEMBER STATES ARE NOT
PREPARED TO ACCEPT STRINGENT GUIDELINES. AS A RESULT,
THE PROPOSED GUIDELINES ARE LIKELY TO HAVE
ONLY A MARGINAL IMPACT ON MEMBER STATE POLICY
DECISIONS.

8. THE MISSION IS SENDING COPIES OF THE COMMISSION
PAPER TO INTERESTED WASHINGTON AGENCIES, INCLUDING
STATE/RPE- CLARK.
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